



Umkhanyakude District Municipality

**Annual financial statements
for the year ended 30 June, 2019**

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

General Information

Legal form of entity	DC27 Umkhanyakude District Municipality
Executive Committee	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C. (Deputy Mayor) Cllr Msane MS (Speaker) Cllr Moodley G.P. (Exco Member) Cllr Ngcobo M.S. (Exco Member) Cllr Zungu M.C. (Exco Member)
Councillors	Cllr Gina MA Cllr Gumede KS Cllr Gumede RH Cllr Gumede VE Cllr Gumede VM Cllr Hlabisa VF (resigned) Cllr Khoza SJ Cllr Khumalo CT Cllr Mabika DP Cllr Mabika AV Cllr Madlopha PB Cllr Mathenjwa BS Cllr Mdaka SF (resigned) Cllr Mhlongo ZM Cllr Mponishane KN Cllr Mthembu MJ Cllr Mthethwa N.R Cllr Mthethwa NS Cllr Mthethwa SP Cllr Myeni SR Cllr Mzinyane SW Cllr Ngubane JG Cllr Sithole MB Cllr Zulu NR Cllr Zuma NE
Grading of local authority	Grade 4
Accounting Officer	M.A Nkosi
Chief Finance Officer (CFO)	Dludla N.T
Business address	Harlingen No. 13433 Kingfisher Road Mkuze 3965
Postal address	P.O. Box 449 Mkuze 3965
Bankers	ABSA
Auditors	Auditor-General South Africa Registered Auditors

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General Information

Nature of business and principal activities

The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

Legislation governing the municipality's operations

- Constitution of the Republic of south Africa (Act 108 of 1998)
- Local Government: Municipal Finance Management Act (Act no.56 of 2003)
- Local Government: Municipal Systems Act (Act 32 of 2000)
- Local Government: Municipal Structures Act (Act 117 of 1998)
- Municipal Property Rates Act (act of 6 2004)
- Division of Revenue Act (Act 1 of 2007)

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COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
WSSA	Water and Sanitation Services South Africa

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

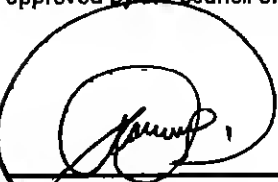
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is wholly dependent on the grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern that the Provincial and Governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 5 to 60, which have been prepared on the going concern basis, were approved by the council on 31 Aug 2019 and were signed on its behalf by:



M. A. Nkosi
Accounting Officer

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Financial Position as at 30 June, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	112,057,113	121,121,909
Receivables from exchange transactions	4	51,775,721	43,092,417
Other receivables from exchange transactions	5	3,759,582	6,835,576
VAT receivable	6	12,903,951	20,221,964
Cash and cash equivalents	7	40,140,071	62,331,085
		220,636,438	253,602,951
Non-Current Assets			
Property, plant and equipment	8	1,958,774,835	1,867,026,149
Intangible assets	9	141,122	192,350
Heritage assets	10	586,000	586,000
		1,959,501,957	1,867,804,499
Total Assets		2,180,138,395	2,121,407,450
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	250,681,453	225,704,903
Consumer and other deposits	12	1,858,961	2,018,385
Unspent conditional grants and receipts	13	28,370,725	24,930,430
Current portion of defined benefit plan obligation	14	629,000	1,296,000
Current portion of loans	15	976,958	986,126
		280,517,097	254,935,844
Non-Current Liabilities			
Trade and other payables	16	11,353,495	22,154,396
Defined benefit plan obligation	14	8,163,000	7,027,000
Non-current loans	15	4,496,406	5,355,931
		24,012,901	34,537,327
Total Liabilities		304,529,998	289,473,171
Net Assets		1,875,608,397	1,831,934,279
Accumulated surplus		1,875,608,398	1,831,934,277

* See Note 35 & 34

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	33,649,572	30,918,622
Rental of facilities and equipment	18	98,102	76,252
Interest income	19	6,212,609	6,941,630
Other income	20	501,124	830,433
Total revenue from exchange transactions		40,461,407	38,766,937
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	655,386,201	636,585,534
Donations	22	1,067,219	6,750,000
Total revenue from non-exchange transactions		656,453,420	643,335,534
Total revenue		696,914,827	682,102,471
Expenditure			
Employee related costs	23	(166,919,170)	(145,745,160)
Remuneration of councillors	24	(8,929,472)	(7,207,291)
Depreciation, amortisation and impairment	25	(63,156,799)	(78,628,817)
Finance costs	26	(2,736,207)	(2,244,376)
Debt Impairment	27	(5,171,525)	(29,957,705)
Repairs and Maintenance	28	(72,321,481)	(53,116,996)
Bulk purchases	29	(147,947,385)	(102,473,654)
Contracted services	30	(61,128,283)	(41,805,238)
General Expenses	31	(124,930,405)	(37,127,488)
Total expenditure		(653,240,707)	(496,306,725)
Surplus for the year		43,674,120	185,795,746

* See Note 35 & 34

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Annual Financial Statements for the year ended 30 June, 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,712,029,561	1,712,029,561
Adjustments - Note 34		
Correction of errors	(65,891,030)	(65,891,030)
Balance at 1 July, 2017 as restated*	1,846,138,531	1,848,138,531
Changes in net assets		
Surplus for the year	185,795,746	185,795,746
Total changes	185,795,746	185,795,746
Restated* Balance at 1 July, 2018	1,831,934,278	1,831,934,278
Changes in net assets		
Surplus for the year	43,674,120	43,674,120
Total changes	43,674,120	43,674,120
Balance at 30 June, 2019	1,875,608,398	1,875,608,398

* See Note 35 & 34

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		22,870,737	14,881,947
Grants	21	663,696,447	596,277,747
Interest income		6,212,609	6,941,630
Other receipts		599,226	466,469
		<u>693,379,019</u>	<u>618,567,793</u>
Payments			
Employee costs and remuneration of councillors		(175,848,643)	(152,952,451)
Suppliers		(336,241,889)	(272,947,965)
Finance costs		(2,033,724)	(1,311,463)
		<u>(514,124,256)</u>	<u>(427,211,879)</u>
Net cash flows from operating activities	32	<u>179,254,763</u>	<u>191,355,914</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(200,663,680)	(164,418,922)
Proceeds from sale of property, plant and equipment		135,765	1,682,532
Purchase of other intangible assets	9	(66,138)	(2,699)
Net cash flows from investing activities		<u>(200,594,053)</u>	<u>(162,757,089)</u>
Cash flows from financing activities			
Repayments of non-current loans		<u>(851,724)</u>	<u>(845,476)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(22,191,014)</u>	<u>27,753,349</u>
Cash and cash equivalents at the beginning of the year		<u>62,331,085</u>	<u>34,577,736</u>
Cash and cash equivalents at the end of the year	7	<u>40,140,071</u>	<u>62,331,085</u>

* See Note 35 & 34

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	52,800,000	(6,419,000)	46,381,000	33,649,572	(12,731,428)	
Rental of facilities and equipment	90,000	-	90,000	98,102	8,102	
Interest received - investment	5,000,000	-	5,000,000	6,212,609	1,212,609	
Other income	1,535,000	50,000	1,585,000	501,124	(1,083,876)	
Total revenue from exchange transactions	59,425,000	(6,369,000)	53,056,000	40,461,407	(12,594,593)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	395,613,000	(3,155,670)	392,457,330	655,388,201	262,928,871	
Public contributions and donations	-	-	-	1,067,219	1,067,219	
Total revenue from non-exchange transactions	395,613,000	(3,155,670)	392,457,330	656,453,420	263,996,090	
Total revenue	455,038,000	(9,524,670)	445,513,330	696,914,827	251,401,497	
Expenditure						
Employee Related Costs	(158,801,000)	-	(158,801,000)	(166,919,170)	(8,118,170)	
Remuneration of councillors	(9,387,000)	-	(9,387,000)	(8,929,472)	457,528	
Depreciation and amortisation	(41,702,000)	4,702,000	(37,000,000)	(63,156,799)	(28,156,799)	
Finance costs	(1,499,000)	-	(1,499,000)	(2,736,207)	(1,237,207)	
Debt Impairment	(5,789,000)	(24,169,000)	(29,958,000)	(5,171,525)	24,788,475	
Repairs and maintenance	(6,632,000)	(9,840,000)	(16,472,000)	(72,321,461)	(55,849,461)	
Bulk purchases	(85,845,000)	(12,000,000)	(97,845,000)	(147,947,385)	(50,102,385)	
General Expenses and contracted services	(145,369,000)	(7,301,000)	(152,670,000)	(186,058,688)	(33,388,688)	
Total expenditure	(455,024,000)	(48,608,000)	(503,632,000)	(853,240,707)	(149,608,707)	
Surplus before taxation	14,000	(58,132,670)	(58,118,670)	43,674,120	101,792,790	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	14,000	(58,132,670)	(58,118,670)	43,674,120	101,792,790	

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Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment of assets.
Defined benefit obligations for long service awards.
Useful lives and residual values of property, plant, and equipment.
Water and electricity losses.

Trade and other receivables

The municipality assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from trade and other receivables.

Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10 - 25 years
• Non residential dwellings	15 - 25 years
Infrastructure	
• Electricity	5 - 60 years
• Water	5 - 100 years
• Sewerage	10 - 40 years
• Airports	15 - 30 years
• Stormwater	30 - 80 years
• Capital works in progress	Not applicable
Other	
• Furniture and office equipment	5 - 10 years
• Computer equipment	3 - 5 years
• Transport assets	5 - 7 years
• Other machinery and equipment	5 - 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

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Accounting Policies

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.5 Intangible assets

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Computer software	5

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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Accounting Policies

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises a heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Accounting Policies

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Loans payable	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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Accounting Policies

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

Payables from exchange transactions

Trade payables are measured at amortised cost.

Loans payable

Loans payable are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at amortised cost.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Operating lease asset or liability is recognised as asset or liability in the statement of financial position.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An Impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Accounting Policies

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Umkhanyakude District Municipality

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Accounting Policies

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPF which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956 Current contributions are charged against operating income on the basis of current service costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

Accounting Policies

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.15 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.18 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

"Unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of MFMA, and includes-

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c), or (d) of the 5 definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure in relation to a municipality, means -

- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality in contravention of or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure"

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory ;
- Losses on the disposal/impairment of non-current assets;
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services – major costs included are Consultancy fees, fleet management costs, IT services and system support, Communication costs, Cellular and data services and security services costs, Photocopies and office equipment rental and insurance.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

1.26 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Accounting Policies

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the municipality to the consumer.

1.27 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2018 to 6/30/2019.

The budget presented is for the municipality itself.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.29 Related parties

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.31 Changes accounting estimates and judgements

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

1.32 VAT

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

VAT as disclosed in the annual financial statements is prepared on the accrual basis.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand

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2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 34: Separate Financial Statements	April 1, 2020
• GRAP 35: Consolidated Financial Statements	April 1, 2020
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020
• GRAP 37: Joint Arrangements	April 1, 2020
• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	April 1, 2019
• GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements:	April 1, 2019
• GRAP 32: Service Concession Arrangements: Grantor:	April 1, 2019
• GRAP 105: Transfers of functions between entities under common control:	April 1, 2019
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control:	April 1, 2019
• GRAP 108: Statutory Receivables:	April 1, 2019
• GRAP 109: Accounting by Principals and Agents:	April 1, 2019
• GRAP 20: Related parties	April 1, 2019
• GRAP 107: Mergers	April 1, 2019
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2019
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 1, 2019
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2019
• IGRAP 11: Consolidation – Special purpose entities:	April 1, 2019
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 1, 2019
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2019
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land:	April 1, 2019

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
3. Inventories		
Materials -water pipes	107,422,788	107,422,789
Water	1,614,945	1,658,760
Water meters	3,019,380	12,040,360
	<u>112,057,113</u>	<u>121,121,909</u>

Inventory is carried at the lower of its original cost and net replacement value.

During the 2019 financial year, water meters were impaired to by R9 020 980

During 2018 Financial year, inventory pipes to the value of R336 653 were used for sewer connection and was capitalised to infrastructure assets, the other movement with value of R4 019 703 was unaccounted for and was recognised as expense.

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
4. Receivables from exchange Transactions		
Gross balances		
Electricity	11,838,253	13,851,060
Water	54,951,299	39,307,011
Sewerage	43,222,063	43,075,952
WSSA debtors	4,661,334	6,948,586
	<u>114,672,949</u>	<u>103,182,609</u>
Less:		
Allowance for impairment - Service charges	<u>(62,897,228)</u>	<u>(60,090,193)</u>
Net balance		
Receivables from exchange transactions	<u>51,775,721</u>	<u>43,092,417</u>
Electricity		
Current (0 -30 days)	853,538	440,440
31 - 60 days	223,743	335,965
61 - 90 days	108,912	189,401
91 - 120 days	89,971	541,355
>120 days	10,562,089	12,343,899
	<u>11,838,253</u>	<u>13,851,060</u>
Water		
Current (0 -30 days)	3,981,629	1,108,708
31 - 60 days	1,038,485	845,716
61 - 90 days	505,506	525,608
91 - 120 days	417,592	952,805
>120 days	49,028,087	35,874,174
	<u>54,951,299</u>	<u>39,307,011</u>
Sewerage		
Current (0 -30 days)	3,116,311	1,329,091
31 - 80 days	816,897	1,013,823
61 - 90 days	397,643	630,086
91 - 120 days	328,488	1,142,199
>120 days	38,562,724	38,960,753
	<u>43,222,063</u>	<u>43,075,952</u>

* See Note 35 & 34

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	171,049	701,376
31 - 60 days	256,456	541,633
61 - 90 days	54,435	90,267
91 - 120 days	150,226	1,067,002
>120 days	61,912,624	60,429,404
	<u>62,544,790</u>	<u>62,829,682</u>
Less: Allowance for impairment	<u>(49,687,749)</u>	<u>(49,295,509)</u>
	<u>12,857,041</u>	<u>13,534,173</u>
Commercial		
Current (0 -30 days)	6,828,425	1,153,849
31 - 60 days	1,962,501	1,058,998
61 - 90 days	384,632	632,174
91 - 120 days	787,559	1,271,777
>120 days	21,753,279	18,124,509
	<u>31,716,396</u>	<u>22,241,107</u>
Less: Allowance for impairment	<u>(13,209,479)</u>	<u>(10,794,685)</u>
	<u>18,506,917</u>	<u>11,446,422</u>
National and provincial government		
Current (0 -30 days)	671,031	1,089,682
31 - 60 days	1,574,294	660,240
61 - 90 days	424,356	622,416
91 - 120 days	980,275	2,178,410
>120 days	8,434,547	8,612,488
	<u>12,084,503</u>	<u>11,183,234</u>
Total		
Current (0 -30 days)	7,670,505	2,878,239
31 - 60 days	3,793,251	2,195,504
61 - 90 days	863,424	1,345,095
91 - 120 days	1,918,060	2,638,359
>120 days	92,095,457	83,767,861
	<u>106,340,697</u>	<u>92,823,058</u>
Add: Credit balance debtors (Note 11)	3,677,817	3,410,965
WSSA debtors	4,681,334	6,948,586
	<u>114,679,848</u>	<u>103,182,609</u>
Less: Allowance for impairment		
91 - 120 days	(21,774)	(141,893)
>120 days	(62,875,454)	(59,948,300)
	<u>(62,897,228)</u>	<u>(60,090,193)</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(60,090,193)	(130,622,099)
Contributions to allowance	(2,807,095)	70,531,906
	<u>(62,897,288)</u>	<u>(60,090,193)</u>

* See Note 35 & 34

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
Consumer debtors past due but not impaired		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June, 2019, R 4,656,675 (2018: R 3,540,599) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	3,793,251	2,195,504
2 months past due	863,424	1,345,095
5. Other receivables from exchange transactions		
Prepayments	3,000,000	5,829,384
Employee debtors	184,977	-
Creditors with debit balances	524,919	958,016
Other debtors	49,686	48,176
	<u>3,759,582</u>	<u>6,835,576</u>
Employee debtors relates to overpayment on employees for travel allowance and payment to former Municipal manager after his contract had ended.		
6. VAT receivable		
VAT	<u>12,903,951</u>	<u>20,221,964</u>
The VAT receivable balance is comprised of:		
Input VAT claimed through VAT 201 returns	4,985,564	13,107,565
Undeclared VAT output	(12,306,473)	(10,894,217)
Undeclared VAT input	20,224,860	18,008,616
	<u>12,903,951</u>	<u>20,221,964</u>
VAT is payable on the payment basis. VAT is only submitted to SARS only once payment has been made to suppliers and money when money has been received from debtors.		
VAT as disclosed in the annual financial statements is prepared on the accrual basis.		
There were no late payments to SARS in the current year.		
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1,244	35,537
Bank balances	39,009,424	61,225,991
Call account balances	1,129,403	1,069,557
	<u>40,140,071</u>	<u>62,331,085</u>

* See Note 35 & 34

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019			2018 Restated*		
Account number / description	Bank statement balances			Cash book balances		
	30 June, 2019	30 June, 2018	30 June, 2017	30 June, 2019	30 June, 2018	30 June, 2017
First National Bank -Demand deposit - 62092993809	684,169	651,178	619,401	684,169	651,178	619,401
First National Bank -Demand deposit - 62027698478	101,036	97,969	94,147	101,036	97,969	94,147
First National Bank -Primary Account: 62026865321	22,561,976	52,367,266	13,607,279	22,561,976	52,367,266	13,607,279
ABSA Bank - 40-5310-7423	15,687,865	8,124,072	4,977,950	15,687,865	8,124,072	4,977,950
Ithala Bank -Club Account 23247671	658,547	636,685	614,609	658,547	636,685	614,609
ABSA Bank -Call Account - 91-1531-5268	410,710	385,390	361,234	410,710	385,390	361,234
First National Bank -Money Market Account -62263733258	31,561	30,185	28,911	31,561	30,185	28,911
First National Bank -Business Call Account -62309788498	2,963	2,803	2,651	2,963	2,803	2,651
ABSA Bank - Fixed deposit- 2076739152	-	-	14,271,554	-	-	14,271,554
Cash on hand	-	-	-	1,244	35,537	-
Total	40,138,827	62,295,548	34,577,736	40,140,071	62,331,085	34,577,736

The municipality does not hold any restricted cash and can freely realise the available balances.

8. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,157,250	-	1,157,250	1,157,250	-	1,157,250
Buildings	62,306,832	(18,261,662)	44,045,170	66,998,183	(16,053,771)	50,944,412
Infrastructure	2,139,311,955	(244,813,522)	1,894,498,433	2,004,417,671	(205,205,033)	1,799,212,638
Other property, plant and equipment	46,362,881	(27,288,899)	19,073,982	39,491,903	(23,780,054)	15,711,849
Total	2,249,138,918	(290,364,083)	1,958,774,835	2,112,065,007	(245,038,858)	1,867,026,149

* See Note 35 & 34

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Donated assets	Depreciation	Impairment loss	Assets handed over to community	Closing balance
Land	1,157,250	-	-	-	-	-	1,157,250
Buildings	50,944,412	-	-	(2,199,813)	(4,699,429)	-	44,045,170
Infrastructure	1,799,212,638	162,683,166	1,067,219	(39,283,233)	(12,374,344)	(46,807,013)	1,894,498,433
Other property, plant and equipment	15,711,849	7,980,514	-	(4,009,900)	(608,481)	-	19,073,982
	1,867,026,149	200,663,680	1,067,219	(46,492,946)	(17,682,254)	(46,807,013)	1,988,774,836

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Donations	Disposals	Depreciation	Impairment loss	Closing balance
Land	1,157,250	-	-	-	-	-	1,157,250
Buildings	79,592,958	662,216	-	-	(2,104,729)	(27,206,031)	50,944,412
Infrastructure	1,677,195,965	162,670,116	-	-	(34,409,233)	(8,244,210)	1,799,212,638
Other property, plant and equipment	15,491,599	1,084,590	8,750,000	(1,061,730)	(4,803,506)	(1,749,104)	15,711,849
	1,773,437,770	164,416,922	8,750,000	(1,061,730)	(41,317,488)	(35,199,345)	1,887,026,149

During the current financial year, Umkhanyakude District Municipality received boreholes from COGTA with total fair value of R1 067 219. In the prior financial year, it also received 15 trucks from Department of Water Affairs and these trucks were fair valued at R450 000 each.

There were no assets pledged as security during the year.

Property, plant and equipment in the process of being constructed or developed

Notes to the Annual Financial Statements

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Buildings	Total
Opening balance	644,857,917	4,691,351	649,549,268
Additions/capital expenditure	192,683,164	-	192,683,164
Transferred to completed items	(266,581,826)	-	(266,581,826)
VIP toilets handed over to community	(46,807,013)	-	(46,807,013)
Projects written off	(12,045,449)	(4,691,351)	(16,736,800)
	<u>512,108,793</u>	<u>-</u>	<u>512,108,793</u>

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Buildings	Total
Opening balance	525,505,387	34,088,249	559,593,636
Additions/capital expenditure	162,670,116	662,216	163,332,332
Projects written off	(6,244,210)	(27,206,031)	(33,450,241)
Transferred to completed items	(37,073,376)	(2,853,083)	(39,926,459)
	<u>644,857,917</u>	<u>4,691,351</u>	<u>649,549,268</u>

Expenditure incurred to repair and maintain property, plant and equipment

Refer to note 28 for details of expenditure to repair and maintain property plant, and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

9. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	399,626	(258,504)	141,122	768,445	(576,095)	192,350

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Closing balance
Computer software	192,350	66,138	(117,366)	141,122

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Closing balance
Computer software	301,656	2,699	(112,005)	192,350

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Heritage assets

	2019			2018		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586,000	-	586,000	586,000	-	586,000

Reconciliation of heritage assets 2019

	Opening balance	Closing balance
Mayoral regalia	586,000	586,000

Reconciliation of heritage assets 2018

	Opening balance	Closing balance
Mayoral regalia	586,000	586,000

Deemed costs

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
11. Payables from exchange transactions		
Trade creditors	201,989,123	186,392,486
Other payables- Umhlosinga	9,232,055	9,293,222
Debtor prepayments	3,677,817	3,410,965
Employee related deductions and suspense accounts	5,829,504	86,142
Accruals for 13th cheque payments	3,988,744	3,543,142
Accruals for leave pay	14,661,083	12,159,899
Retentions	11,303,127	10,819,047
	250,881,453	225,704,903
12. Consumer and other deposits		
Consumer deposits - Water	1,858,961	1,974,063
Other deposits	-	44,322
	1,858,961	2,018,385
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Councillors Training	11,300	11,300
Disaster Management Grant	9,120	9,120
Environmental Management Grant	206,984	405,600
Ingwavuma Prison Electrical Upgrade	-	101,506
Kwadapha	578,891	578,891
Kwazibi National Lottery Grant	122,667	122,667
Water Services infrastructure Grant	14,082,656	-
Lake Tele	81,301	267,001
Mabibi National Lottery Grant	166,667	166,667
Messification Grant	-	4,172,492
Public Participation Customer Satisfaction Survey	39,000	154,000
Mqobela National Lottery Grant	166,668	166,666
Ndumo Learners Shelter Grant	9,441,505	9,441,505
Nyezi Community HIV Centre	303,570	303,570
PIMMS/ NDT Operational Grant	300	300
EDTEA Grant	100,242	6,880,747
Rural Road & Transport Management Grant	905	89,447
ACIP Grant	4,695	4,695
Waste Management Grant	145,566	145,566
Ngodini Boarder Curve Grant	-	1,000,000
Umkhombe Tours	908,690	908,890
	26,370,725	24,930,430

* See Note 35 & 34

Umkhanyakude District Municipality
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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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14. Defined definition plan obligation

Reconciliation of defined benefit obligation - 30 June 2019

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial losses	Closing balance
Long service awards provision	8,323,000	855,000	843,000	(1,474,315)	245,315	8,792,000

Reconciliation of defined benefit obligation 30 June 2018

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial losses	Closing balance
Long service awards provision	7,046,000	769,000	737,000	(526,047)	297,047	8,323,000

Defined benefit plan obligation disclosed in the Statement of Financial

Position as:

Non-current liabilities	8,163,000	7,027,000
Current liabilities	629,000	1,296,000
	<u>8,792,000</u>	<u>8,323,000</u>

Long service awards

Membership Data

As at 30 June 2019, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted Average past service (Years)
Male	206	40.01	9.81
Female	107	41.74	10.03
Total	313	43.78	9.89

Long service awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. Awarded leave days are converted to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 29 June 2019 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. It is further assumed that the current policy for awarding long service awards remains unchanged in the future.

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit awards (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	(10/250)*Annual salary
15	8%	(20/250)*Annual salary
20,25,30,35,40 and 45	12%	(30/250)*Annual salary

Umkhanyakude District Municipality
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Notes to the Annual Financial Statements

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Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2019	Assumed value 30 June 2018
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve**	Difference between nominal and real yield curve**
Normal salary increase	CPI + 1%	6%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based
Average retirement age for all active employees	83	63
Mortality before retirement	SA 85-90	SA 85-90
The table below sets out the assumed rates of withdrawal from services:		
Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 - 59	1%	1%
Age 60+	0%	0%
Valuation of assets		
As at the valuation date, the long service leave liability award of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.		
Amounts recognised in the Statement of Financial Position		
Accrued defined benefit obligation	8,792,000	8,323,000
Reconciliation of accrued defined benefit obligations:		
Long service leave awards	Current valuation date 30 June 2018	Preceding valuation date 30 June 2017
Accrued liability as at preceding valuation date	8,323,000	7,046,000
Current service cost	855,000	769,000
Interest cost	843,000	737,000
Benefits paid	(1,474,315)	(526,047)
Actuarial losses/(gains)	245,315	297,047
Balance at end of year	8,792,000	8,323,000
Net amounts recognised in Statement of Financial Performance		
Current service cost	855,000	769,000
Interest cost	843,000	737,000
Benefits paid	(1,474,315)	(526,047)
Actuarial losses/(gains)	245,315	297,047
	469,000	1,277,000

Notes to the Annual Financial Statements

	2019	2018 Restated*
15. Loans		
Non-current portion of borrowings	4,496,406	5,355,931
Current portion of borrowings	976,958	986,127
	<u>5,473,364</u>	<u>6,342,058</u>

DBSA

The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi-floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

16. Long term Trade and other payables

At amortised cost		
Trade and other payables	11,353,495	22,154,396
36 equal monthly instalments, 5% interest		

Barzani Development (Pty) Ltd

During the 2018 financial year, the municipality entered into a settlement agreement with Barzani Development (Pty) Ltd in which the amount of R 32 429 5978 owing to Barzani will be repaid in 36 equal monthly instalments. The amount of R11 353 495 (2018 R22 154 396) payable to Barzani after 12 months was reclassified from current liabilities to non current liabilities and the balance of R11 772 845 (2018 R10 275 202) is included in trade and other payables as current liabilities (Refer to note 11). The full amount carries an effective interest of 5%.

17. Service charges

Sale of electricity	5,415,662	6,141,212
Sale of water	27,716,473	24,074,116
Sewerage and sanitation charges	517,437	703,294
Total Service Charges	<u>33,649,572</u>	<u>30,918,622</u>

During the 2019 financial year, the municipality engaged in water audit/ revenue enhancement study and it reflected that lost revenue due to readings not being billed/incomplete records on the system is estimated at 8 642 062 kl/Year at an average tariff rate of R9.42. The Total estimated revenue would have been R81 408 220 according to the experts (Joat). The current billing for water in the 2018/19 financial year is R 27 716 473, giving us the estimated lost revenue of R53 691 747 which has been reported to council.

18. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	98,102	76,252
	<u>98,102</u>	<u>76,252</u>

* See Note 35 & 34

Umkhanyakude District Municipality
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Notes to the Annual Financial Statements

	2019	2018 Restated*
19. Investment income		
Interest income from:		
Investments	5,661,637	4,260,086
Other bank balances	550,972	2,681,544
	<u>8,212,609</u>	<u>6,941,630</u>
20. Other income		
Fines and penalties	-	18,450
Connection fees	63,425	48,675
Bad debts recovered	27,277	-
Sale of tender documents	67,565	63,828
Commission	73,207	35,550
Profit on sale of assets	-	440,215
Refund from SETA	269,650	223,715
	<u>501,124</u>	<u>830,433</u>

* See Note 35 & 34

Umkhanyakude District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
21. Government grants and subsidies		
Operating grants		
Equitable share	373,672,447	330,020,451
Public Participation & Customer Satisfaction Survey Grant	115,000	-
Finance Management Grant	1,000,000	1,250,000
Massification Grant	4,172,492	-
Expanded Public Works Programme	3,022,000	1,008,000
Lake Tete	185,700	-
Environmental Management Grant	198,617	-
Rural Road and Transport Management Grant	2,623,095	2,529,553
Ingwayuma Prison and Electrical Upgrade	101,506	-
Ngodini boarder curve Grant	1,000,000	-
Ndumo Market Stalls Grant	-	662,215
	<u>386,090,857</u>	<u>335,470,219</u>
Capital grants		
Municipal infrastructure Grant	210,378,000	218,910,000
Water Services Infrastructure Grant	58,917,344	82,205,315
	<u>269,295,344</u>	<u>301,115,315</u>
	<u>655,386,201</u>	<u>636,585,534</u>
Total grants receipts		
Equitable share	373,672,447	330,020,451
Conditional grants	290,024,000	266,257,296
	<u>663,696,447</u>	<u>596,277,747</u>
Public Participation & Customer Satisfaction Survey Grant		
Balance unspent at beginning of year	154,000	154,000
Conditions met - transferred to revenue	(115,000)	-
	<u>39,000</u>	<u>154,000</u>
Conditions still to be met - remain liabilities (see note 13).		
PIMMS / NDT Operational Grant		
Balance unspent at beginning of year	300	300
Conditions still to be met - remain liabilities (see note 13).		
Finance Management Grant		
Current-year receipts	1,000,000	1,250,000
Conditions met - transferred to revenue	(1,000,000)	(1,250,000)
	<u>-</u>	<u>-</u>
Massification Grant		
Balance unspent at beginning of year	4,172,492	4,172,492
Conditions met - transferred to revenue	(4,172,492)	-
	<u>-</u>	<u>4,172,492</u>
Kwazibi National Lottery Grant		

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Figures in Rand	2019	2018
Balance unspent at beginning of year	122,667	122,667
Conditions still to be met - remain liabilities (see note 13).		
Mqobela National Lottery Grant		
Balance unspent at beginning of year	166,666	166,666
Conditions still to be met - remain liabilities (see note 13).		
Mabibi National Lottery Grant		
Balance unspent at beginning of year	166,667	166,667
Conditions still to be met - remain liabilities (see note 13).		
Disaster Management Grant		
Balance unspent at beginning of year	9,120	9,120
Conditions still to be met - remain liabilities (see note 13).		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	15,410,451
Current-year receipts	210,378,000	218,910,000
Conditions met - transferred to revenue	(210,378,000)	(218,910,000)
Unspent grant withheld from Equitable share	-	(15,410,451)
	-	-
Expanded Public Works Programme		
Current-year receipts	3,022,000	1,008,000
Conditions met - transferred to revenue	(3,022,000)	(1,008,000)
	-	-
Lake Tete Grant		
Balance unspent at beginning of year	267,001	287,001
Conditions met - transferred to revenue	(185,700)	-
	81,301	267,001
Conditions still to be met - remain liabilities (see note 13).		
Kwadapha Grant		
Balance unspent at beginning of year	578,891	578,891
Conditions still to be met - remain liabilities (see note 13).		
Nyezi Community HIV Centre Grant		
Balance unspent at beginning of year	303,570	303,570
Conditions still to be met - remain liabilities (see note 13).		

Umkhanyakude District Municipality

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Figures in Rand	2019	2018
Umkhombé Tours Grant		
Balance unspent at beginning of year	908,690	908,690
Conditions still to be met - remain liabilities (see note 13).		
Waste Management Grant		
Balance unspent at beginning of year	145,565	145,565
Conditions still to be met - remain liabilities (see note 13).		
Environmental Management Grant		
Balance unspent at beginning of year	405,600	405,600
Conditions met - transferred to revenue	(198,616)	-
	206,984	405,600
Conditions still to be met - remain liabilities (see note 13).		
Rural Road & Transport Management Grant		
Balance unspent at beginning of year	89,447	-
Current-year receipts	2,624,000	2,619,000
Conditions met - transferred to revenue	(2,623,095)	(2,529,553)
Unspent grant paid back	(89,447)	-
	905	89,447
Conditions still to be met - remain liabilities (see note 13).		
Ndumo Learners Shelter Grant		
Balance unspent at beginning of year	9,441,505	9,441,505
Conditions still to be met - remain liabilities (see note 13).		
Councillors Training Grant		
Balance unspent at beginning of year	11,300	11,300
Conditions still to be met - remain liabilities (see note 13).		
Ingwavuma Prison Electrical Upgrade		
Balance unspent at beginning of year	101,506	101,506
Conditions met - transferred to revenue	(101,506)	-
	-	101,506
Conditions still to be met - remain liabilities (see note 13).		
ACIP Grant		
Balance unspent at beginning of year	4,695	4,695
Conditions still to be met - remain liabilities (see note 13).		

Umkhanyakude District Municipality

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Figures in Rand	2019	2018
Water Service Infrastructure Grant		
Balance unspent at beginning of year	-	32,205,315
Current-year receipts	73,000,000	50,000,000
Conditions met - transferred to revenue	(58,917,344)	(82,205,315)
	<u>14,082,656</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
Ngodini Boarder Cave Grant		
Balance unspent at beginning of year	1,000,000	-
Current-year receipts	-	1,000,000
Conditions met - transferred to revenue	(1,000,000)	-
	<u>-</u>	<u>1,000,000</u>
EDTEA Grant		
Balance unspent at beginning of year	6,880,747	-
Current-year receipts	100,242	6,880,747
Grants transferred to Umhlosinga Development Agency	(6,880,747)	-
	<u>100,242</u>	<u>6,880,747</u>
Conditions still to be met - remain liabilities (see note 13).		
Ndumo market stalls Grant		
Conditions met - transferred to revenue	<u>-</u>	<u>(662,215)</u>
Equitable Share		
In terms of the Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.		
The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.		
22. Donations		
Donations income	<u>1,067,219</u>	<u>6,750,000</u>

The municipality received water infrastructure assets during the current year from COGTA. In the prior year, the Municipality received water tankers from Department of Water and Sanitation.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
23. Employee related costs		
Basic salaries and wages	117,924,384	104,384,331
Bonus	7,151,534	6,217,769
Contributions to pensions, medical aids and UIF and other allowances	24,264,637	20,364,415
Travel, motor car, subsistence and other allowances	9,149,521	6,842,098
Housing benefits and allowances	1,628,512	1,068,539
Overtime payments	3,801,269	6,802,953
Leave expense	2,999,313	65,055
	166,919,170	145,745,160
Remuneration of Municipal Manager		
Annual Remuneration	1,242,218	1,423,502
Travel, housing and other allowances	127,773	159,500
Contributions to UIF, Medical and Pension Funds	100,130	13,890
	1,470,121	1,598,892
The Municipal Manager resigned during the 2019 financial year and two people acted for the position of Municipal Manager consequently.		
Remuneration of Chief Finance Officer		
Annual Remuneration	1,057,763	742,091
Travel, housing and other allowances	374,197	284,066
Leave paid	-	10,593
	1,431,960	1,036,750
During the 2018 financial year, the Chief Financial Officer(CFO) acted as the Municipal Manager and the Expenditure Manager acted as CFO during the same period.		
Remuneration of General Manager - Corporate Service		
Annual Remuneration	894,934	471,336
Travel, housing and other allowances	440,610	167,498
Contributions to UIF, Medical and Pension Funds	93,750	162,554
	1,429,294	801,388
Remuneration of General Manager - Community Services and Planning & Economic Development		
Annual Remuneration	725,223	609,872
Travel, housing and other allowances	335,716	118,445
Contributions to UIF, Medical and Pension Funds	190,979	7,637
	1,251,918	735,954
Remuneration of General Manager - Technical Services		
Annual Remuneration	730,806	1,292,800
Travel, housing and other allowances	159,242	45,600
Contributions to UIF, Medical and Pension Funds	6,802	14,530
	898,850	1,352,930

The General Manager for Technical Services resigned during the 2019 financial year and an Acting General manager was appointed and still holds the office.

Umkhanyakude District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
24. Remuneration of councillors		
Mayor	907,347	738,061
Deputy Mayor	835,135	624,764
Speaker	771,821	633,968
Executive Committee Members	1,744,790	2,026,944
Councillors	4,670,379	3,183,554
	8,929,472	7,207,291
Mayor		
Mayoral allowance	718,711	563,040
Travel allowance	140,760	140,760
Cellphone allowance	40,800	27,512
Contributions to UIF, Medical and Pension Funds	7,076	6,749
	907,347	738,081
Deputy Mayor		
Annual remuneration	574,967	450,432
Travel allowance	112,608	112,608
Cellphone allowance	40,800	40,800
Reimbursive allowance	106,760	20,924
	835,135	624,764
Speaker		
Annual remuneration	574,967	450,432
Travel allowance	112,608	112,608
Cellphone allowance	40,800	40,800
Reimbursive allowance	43,446	30,128
	771,821	633,968
In-kind benefits		
The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time.		
The Mayor, Deputy Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.		
All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.		
The Mayor, Deputy Mayor and Speaker have the use of Council owned vehicle for official duties.		
The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.		
25. Depreciation and amortisation		
Property, plant and equipment	45,492,945	41,317,467
Intangible assets	117,366	112,005
Impairment loss property plant and equipment	17,546,488	35,199,345
	63,156,799	76,628,817
26. Finance costs		
Trade and other payables	2,231,128	1,665,407
Loans	505,079	578,969
	2,736,207	2,244,378

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
27. Debt impairment		
Contributions to debt impairment provision	2,807,035	(70,531,905)
Bad debts written off	2,364,490	100,489,610
	<u>5,171,525</u>	<u>29,957,705</u>
28. Repairs and Maintenance		
Expenditure on repairs and maintenance comprised the following:		
Electricity infrastructure	2,789,619	-
Furniture and equipment	579,298	7,446
Sanitation infrastructure	322,570	85,000
Buildings	642,381	715,964
Water distribution	67,987,593	52,308,586
	<u>72,321,461</u>	<u>53,116,996</u>
29. Bulk purchases		
Electricity	50,362,159	41,298,322
Water	97,585,226	61,175,332
	<u>147,947,385</u>	<u>102,473,654</u>
Bulk purchases of electricity comprises electricity purchases for resale as prepaid electricity, own consumption by the municipality for it's buildings and water schemes.		
Bulk purchases of water comprises water purchased for resale.		
30. Contracted services		
Contracted services	<u>61,128,283</u>	<u>41,805,238</u>
Contracted services consists of:		
Consultancy fees	13,480,464	5,973,069
Fleet Services	21,606,057	17,145,391
Photocopies and office equipment rental	1,071,620	1,058,354
Insurance	1,290,218	1,036,733
Cellular and data services	2,621,700	2,648,423
IT services and system support	1,454,131	2,122,804
Internal audit services	1,900,174	1,463,127
Communication	1,297,346	1,403,160
Security services	16,397,958	8,865,549
Other services	8,615	88,628
	<u>61,128,283</u>	<u>41,805,238</u>

* See Note 35 & 34

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
31. General expenses		
Accommodation	1,288,839	698,731
Advertising	1,587,502	467,260
Audit Fees	3,447,839	3,373,042
Audit committee fees	297,315	323,751
Bank charges	134,211	148,896
Community and Social services	1,853,422	1,876,450
Community development and training	439,547	1,359,082
Compensation fund	586,803	50,000
Conference and seminars	133,408	-
Court litigation expenses for cancelled contracts	4,500,000	-
Events Organisation and catering	1,741,268	206,300
Fines and penalties	-	179,251
Fuel and oil	-	493
Grants & Subsidies - Umhlozinga Development Agency	12,605,692	11,097,094
Hiring and screening costs	-	40,402
Inventory losses	9,020,980	4,019,703
Legal fees**	24,085,372	5,872,834
Licences	876,132	609,115
Medical expenses	153,570	111,930
Meter reading and installation costs	2,262,489	-
Municipal Health	195,052	94,571
Other expenses	45,003	79,874
Printing, stationery and cleaning materials	1,152,588	308,540
Professional and consulting fees	1,754,782	715,850
Publicity	1,239,203	254,225
Rural Transport Management	2,122,543	2,106,571
Sports DC27	4,440,411	2,336,238
Staff programs and functions	8,500	35,400
Systems Support	63,639	127,108
Tourism Projects	1,034,130	349,390
Training	832,133	98,978
Uniforms and protective clothing	221,019	188,409
VIP toilets handed over to the community*	46,807,013	-
	124,930,405	37,127,488

*VIP toilets of R48 678 231 in the current financial year relates to VIP toilets that were handed over to the community and was expensed from assets under construction. Refer to note 8.

**During the 2019 financial year, legal fees increased drastically due to investigation of irregular, fruitless and wasteful expenditure that was going on.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
32. Cash generated from operations		
Surplus	43,674,120	185,795,746
Adjustments for:		
Depreciation and amortisation	63,156,799	76,628,817
Profit on sale of assets	-	(440,215)
Other adjustments	(16,969)	(183,718)
VIP toilets handed over to the community	46,807,013	-
Debt impairment	5,171,525	29,957,705
Movements in provisions	469,000	1,277,000
Donations received	(1,067,219)	(6,750,000)
Changes in working capital:		
Inventories	9,064,796	3,723,826
Consumer debtors	(13,854,829)	(17,756,058)
Other receivables from non-exchange transactions	3,075,994	1,719,381
Payables from exchange transactions	24,976,550	(94,136,620)
VAT	7,318,013	28,838,013
Unspent conditional grants and receipts	1,440,295	(39,645,572)
Consumer deposits	(159,424)	173,213
Movement in long term payables	(10,800,901)	22,154,396
	<u>179,254,763</u>	<u>191,355,914</u>

33. Comparative figures

Donations were reclassified from other income and were disclosed separately under revenue from non-exchange transactions.

Amounts within General expenses were reclassified as follows for the prior year:

- R261 865 was reclassified from cleaning expenses and included under printing, stationary and cleaning materials.

Statement of Financial Performance

Other income	-	(6,750,000)
Donations income	-	6,750,000
	<u>-</u>	<u>-</u>

* See Note 35 & 34

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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34. Prior period errors

Error 1

Invoices were recorded in the incorrect period in prior year and some were omitted due to cut off issues. During voucher audit, all invoices recorded in incorrect period were adjusted and recorded in the correct period to which they relate. A further R1 814 cash that was taken out for catering event was incorrectly debited to other receivables instead of expenses. Another invoice for compensation fund of R50 000 was duplicated and erroneously included under legal fees.

A deposit of R44 322 that was received from unknown source was recognised as other income in prior year instead of liability. This amount was deposited in the municipality's account by error and the owners of the money claimed it back.

Consumer deposit of R69 781 was incorrectly mapped to other receivables during the preparation of financial statements. This error was corrected in the current year and the amount was mapped to consumer deposit.

Service charges from sale of water totalling R132 578 were incorrectly mapped to rental income in prior year. This account was mapped to service charges and the prior year was restated to reflect the correct source of income.:

The correction of the error(s) results in adjustments as follows:

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
Statement of financial position		
Receivables from exchange transactions	-	(4,941)
Other receivables from exchange transactions	-	67,967
VAT receivable	-	1,596,280
Payables from exchange transactions	-	(15,463,999)
Consumer end other deposits	-	(114,103)
Opening accumulated surplus	-	5,290,501
	-	(8,628,295)
Statement of financial performance		
Service charges revenue	-	(129,912)
Rental of facilities and equipment	-	132,578
Other income	-	44,322
Finance costs	-	220,310
Repairs and maintenance	-	189,456
Bulk purchases	-	768,421
Contracted services	-	4,625,951
General Expenses	-	2,777,169
	-	8,628,295
Contracted services		
Communication	-	100,065
Fleet management	-	2,435,821
Security services	-	2,090,065
	-	4,625,951
General expenses		
Advertising	-	120,550
Audit Fees	-	142,495
Community development and training	-	15,000
Community and Social services	-	161,764
Compensation fund	-	50,000
Hiring	-	1,430
Legal fees	-	117,847
Professional consulting fees	-	715,849
Sports DC27	-	1,445,600
Systems Support	-	6,634
	-	2,777,169

Error 2

During the year under audit, we noted that some invoices related to release of retention for capital projects were capitalised to Property, Plant and Equipment in prior years instead of being adjusted to reduce the amount of the retention and some retentions from prior year were not reised. Further, retentions to the total value of R3 941 698 had been settled or forfeited but were not accounted for in prior years.

Receivables from exchange transactions were overstated by excess VAT on the financial statement by R19 400 from audit adjustments. However the trial balance was correct. Further, receivables from exchange transactions were overstated by R568 732 for incorrect billing in electricity in 2017 financial year.

Other receivables from exchange transaction were understated by R117 868 that was prepaid but this amount was incorrectly recorded as VAT input.

The following amounts were incorrectly mapped in the financial statement in prior year:

- Consumer deposits totalling R507 942 were incorrectly included under trade and other payables (employee related).
- Cash on hand from of R35 537 was incorrectly included under other receivables from exchange transactions.

The cash flow statement was also incorrectly presented due to errors in calculating cash generated from operations.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
The effect of the adjustments is as follows.		
Statement of financial position		
Receivables from exchange transactions	-	(588,132)
Other receivables from exchange transactions	-	82,331
VAT receivable	-	(28,623)
Cash and cash equivalents	-	35,537
Property, plant and equipment	-	(1,198,658)
Payables from exchange transactions-retentions	-	6,102,424
Payables from exchange transactions-employee related	-	507,942
Consumer deposits	-	(507,942)
Opening accumulated surplus	-	(4,404,879)
	<u>-</u>	<u>-</u>

Error 3

Property, plant and equipment were overstated by R69 466 350 due to repair expenditure that was capitalised to infrastructure (Work in progress), further buildings were overstated by R60 due to error in the preparation of financial statements.

Further, a water t to the value of R9 147 125 was completed but was not capitalised from Work in progress and was not depreciated.

VAT receivable was also overstated by R13 822 098

The correction of the error resulted in adjustments as follows:

Statement of financial position		
VAT receivable	-	(13,822,098)
Property, plant and equipment	-	(71,236,444)
Opening accumulated surplus	-	65,005,410
	<u>-</u>	<u>(20,053,132)</u>
Statement of financial performance		
Repairs and maintenance	-	18,417,304
Depreciation, amortisation and impairment	-	1,635,828
	<u>-</u>	<u>20,053,132</u>

35. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position - Extract

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand		2019	2018	
2018				
	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions	4	43,685,490	(593,073)	43,092,417
Other receivables from exchange transactions	5	6,685,279	150,297	6,835,576
VAT receivable	6	32,476,454	(12,254,490)	20,221,964
Cash and cash equivalents	7	62,295,548	35,537	62,331,085
Property plant and Equipment	8	1,939,461,250	(72,435,101)	1,867,026,149
Payables from exchange transactions	11	(216,851,320)	(8,853,583)	(225,704,903)
Consumer deposits	12	1,396,340	622,045	2,018,385
Accumulated surplus		(1,926,506,737)	99,572,460	(1,826,934,277)
		(57,357,696)	6,244,092	(51,113,604)

Statement of financial performance - Extract

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges revenue	17	30,788,710	129,912	-	30,918,622
Rental of facilities and equipment	18	208,830	(132,578)	-	76,252
Repairs and maintenance	28	(34,510,237)	(18,606,759)	-	(53,116,996)
Other income	20	7,624,755	(44,322)	(6,750,000)	830,433
Donations income	22	-	-	6,750,000	6,750,000
Finance costs	26	(2,024,066)	(220,310)	-	(2,244,376)
Depreciation, impairment and amortisation	25	(74,992,988)	(1,635,829)	-	(76,628,817)
Bulk purchases	29	(101,705,233)	(768,421)	-	(102,473,654)
Contracted services	30	(37,179,286)	(4,625,952)	-	(41,805,238)
General expenditure	31	(34,350,317)	(2,777,171)	-	(37,127,488)
Surplus for the year		<u>(246,139,832)</u>	<u>(28,681,430)</u>	-	<u>(274,821,262)</u>

Cash flow statement

2018

	As previously reported	Correction of error	Restated
Sale of goods and services	14,879,645	2,302	14,881,947
Other receipts	643,370	(176,901)	466,469
Payment to suppliers	(260,011,119)	(13,473,320)	(273,484,439)
Purchase of property, plant and equipment	(177,563,904)	13,683,456	(163,880,448)
	<u>(422,052,008)</u>	<u>35,537</u>	<u>(422,016,471)</u>

36. Unauthorised expenditure

Unauthorised expenditure	269,559,626	251,279,815
Add: Unauthorised expenditure- Current year	101,888,898	18,279,811
	<u>371,448,524</u>	<u>289,559,626</u>

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget.

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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Refer to Appendix A for the comparison of actual versus budgeted expenditure.

37. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	47,056,788	9,326,418
Add: Fruitless and wasteful expenditure current year	22,059,385	37,730,370
	<u>89,118,173</u>	<u>47,056,788</u>

Fruitless and wasteful expenditure comprise of interest and penalties relating to SARS EMP declarations and late payment of creditors, payments to employees whose contracts had ended and payments for cancellation of contracts for service providers.

Fruitless expenditure also includes infrastructure expenditure that was incurred in prior years but could not be identified where the work was done R16 736 801 (R33 450 241 refer to note 8) and inventory that was written off as unaccounted for after stock (R4 019 703 refer to note 30 and 38).

38. Irregular expenditure

Opening balance	1,834,587,834	1,602,540,225
Add: Irregular Expenditure - prior year contracts	412,638,464	204,936,888
Add: Irregular Expenditure - current year contracts	81,699,148	27,110,721
Less: Irregular expenditure written off prior year contracts	(1,602,540,225)	-
	<u>726,385,221</u>	<u>1,834,587,834</u>

No disciplinary actions or criminal proceedings was instituted as a result of irregular expenditure incurred.

39. Material losses

Opening balance	32,218,148	28,198,445
Inventory losses-pipes	-	4,019,703
	<u>32,218,148</u>	<u>32,218,148</u>

Inventory losses in the prior year relates to pipes that were unaccounted for as at the end of the year after inventory count.

40. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	197,200	48,958
Current year fees	3,960,967	3,852,534
Amount paid - current year	(3,701,787)	(3,655,334)
Amount paid - previous years	(197,200)	(46,958)
	<u>259,180</u>	<u>197,200</u>

PAYE and UIF

Opening balance	-	2,768,137
Current year subscription / fee	26,830,209	22,189,246
Amount paid - current year	(24,707,809)	(22,189,246)
Amount paid - previous years	-	(2,768,137)
	<u>2,122,400</u>	<u>-</u>

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
Pension and Medical Aid Deductions		
Opening balance	-	2,366,534
Current year subscription / fee	35,166,746	30,100,474
Amount paid - current year	(32,100,827)	(30,100,474)
Amount paid - previous years	-	(2,366,534)
	<u>3,065,919</u>	<u>-</u>
SALGA Fees		
Fees paid	<u>1,505,600</u>	<u>1,665,784</u>
VAT		
VAT receivable	<u>12,903,951</u>	<u>20,221,964</u>

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2019:

30 June, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Moodley GP	-	220,191	220,191
Zungu MC	-	34,223	34,223
Gina MA	-	1,563	1,563
	<u>-</u>	<u>255,977</u>	<u>255,977</u>
30 June, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Moodley GP	446	219,177	219,623
Zungu MC	-	34,223	34,223
Gina MA	-	1,563	1,563
	<u>446</u>	<u>254,963</u>	<u>255,409</u>

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
41. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
• infrastructure	371,891,351	342,363,451
Total capital commitments		
Approved and contracted for	371,891,351	342,363,451
Capital commitments were financed through:		
Government grants	371,891,351	342,363,451
Operating commitments		
Approved and contracted for		
• Operating expenditure	284,527,154	89,937,952
Total operational commitments		
Already contracted for but not provided for	284,527,154	339,236,034
Total commitments		
Total commitments		
Approved and contracted for capital commitments	371,891,351	342,363,451
Approved and contracted for operating commitments	284,527,154	89,937,952
	656,418,505	432,301,403
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	97,652	898,092
- in second to fifth year inclusive	-	97,652
	97,652	995,744
The municipality's operating commitments comprised operating leases.		
Operating lease payments represent rentals payable by the municipality for the office equipment. Leases are contracted for a period of three (3) years with no contingent rentals payable. Lease rentals are charged at a fixed amount (2016: 15% acceleration rate annually). Expenditure on lease rentals paid have been recognised on a straight-line basis in the Statement of Financial Performance.		
Minimum lease payments due		
-within one year	97,652	898,092
-in second to fifth year inclusive	-	97,652
	97,652	995,744
Operating leases - as lessee (expense)		
Minimum lease payments due		
-within one year	97,652	898,092
-in second to fifth year inclusive	-	97,652

* See Note 35 & 34

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

	2019	2018 Restated*
	<u>97,652</u>	<u>995,744</u>

42. Contingencies

Supplier disagreements

During the year ended 30 June 2018, suppliers claimed to have provided the municipality with services for which the outstanding amounts claimed as per creditors confirmations is higher than what the Municipality is aware of. The total amount above the invoices recognised by the Municipality amount to R8 739 803. No further support for the claimed amounts were received up to date.

As at 30 June 2019, the municipality had pending court cases with suppliers. Should the municipality lose all the cases, it may be liable for a total of R82 082 328.

43. Related parties

Related party

Umhlosinga Development Agency

Umhlosinga Development Agency is a municipal entity under the control of Umkhanyakude District Municipality to spearhead the economic development within the district.

Related party balances

Payables - Owing to related parties

Umhlosinga Development Agency	9,232,055	9,293,222
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Related party transactions

Transfers paid to related parties

Umhlosinga Development Agency	12,605,692	11,097,094
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44. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 30 June 2019 and the date when the annual financial statements were authorised.

* See Note 35 & 34

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

45. Risk management

Interest Rate Risk

The municipality's interest rate risk arises from long-term borrowings from DBSA.

At year end, financial instruments exposed to interest rate risk were as follows:

Loan from Development Bank of South Africa.

FNB Bank Call deposits.

FNB Bank, ABSA and Ithala Bank Notice deposits.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The following liabilities were due within 1 month:

Consumer deposits R1 858 951 (2019) R2 018 385 (2018)

Payables from exchange transactions R250 681 453 (2019) R225 704 903 (2018)

Unspent conditional grants R26 370 725 (2019) R24 930 430 (2018).

The following liabilities were due from 1 month to 12 months:

Borrowings R858 722 (2019) R851 724 (2018).

Interest accrued on long term loan R118 238 (2019) R134 403 (2018)

Maximum credit risk exposure

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The investments are diversified among the reputable commercial banks.

The consumer debtors are settled on a monthly basis. Upon the new connections the consumers paid deposit in advance.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Receivables from exchange transactions	51,775,721	43,092,417
Other receivables from exchange transactions	5,684,889	6,835,576

Market risk

Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2019, deviations from Municipal Supply Chain Management Regulations amounted to R77 066 066

47. Distribution losses

Electricity distribution losses

	2019		2018	
	kWh units	Rand	kWh units	Rand
Electricity distribution loss calculated as:				
Electricity purchases	12,208,393	18,092,297	11,359,043	16,469,360
Electricity sales	(3,805,324)	(5,991,259)	(3,639,554)	(6,094,215)
	<u>8,403,069</u>	<u>12,101,038</u>	<u>7,719,489</u>	<u>10,375,145</u>

	2019		2018	
	Kl	Rand	Kl*	Rand
Water distribution loss calculated as:				
Water distribution losses	<u>3,752,471</u>	<u>18,886,120</u>	<u>3,560,416</u>	<u>18,057,475</u>

48. Going concern

As at 30 June, 2019, the municipality had an accumulated surplus of R 1,875,608,398, however, we draw attention to the fact that the municipality's current liabilities exceed its current assets by R 59,880,659.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the Provincial and Governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

49. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

50. Actual capital expenditure versus budgeted capital expenditure

Capital expenditure	Original budget	Adjustments	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
Capital expenditure	266,059,000	19,384,000	285,443,000	200,663,680	84,779,320
	<u>266,059,000</u>	<u>19,384,000</u>	<u>285,443,000</u>	<u>200,663,680</u>	<u>84,779,320</u>

R285 million was budgeted for capital expenditure for 2018/19, and actual expenditure reported per Note 8 was below the final budget by approximately 29.7%.

Umkhanyakude District Municipality
Annual Financial Statements for the year ended 30 June 2016
Statement of Comparison between Budget and Actual Amounts
Statement of Financial Performance

Figures in Rand

Revenue	Approved Budget	Adjustments	Final Budget	Actual Amount	Difference between final		
Service charges	52,800,000	-	6,413,000	33,649,572	12,731,428	-27%	
Rental of facilities	90,000	-	-	90,000.00	90,102	8,102	9%
Interest - investment revenue	5,000,000	-	5,000,000.00	6,212,609	-	1,212,609	24%
Interest - Outstanding debtors	-	-	-	-	-	-	0%
Other revenue	1,533,000	50,000	1,583,000.00	501,124	-	1,081,876	-68%
Total Revenue from exchange transaction	59,423,000	-	6,846,000	40,443,427	32,594,589		
Revenue from non-exchange transaction							
Transfers recognised - Operational	395,613,000	-	3,155,670	2,669,067	8,246,473	-2%	
Transfers recognised - Capital	266,059,000	19,384,000	285,443,000	269,295,344	16,147,656	-6%	
Donations Income	-	-	-	1,067,219	-	1,067,219	100%
Total Revenue	433,092,000	6,334,670	443,313,330.00	488,914,227	34,064,303	8%	
Expenditure							
Employee related costs	158,801,000	-	158,801,000.00	166,919,170	-	8,118,170	-5%
Remuneration of councillors	9,387,000	-	9,387,000.00	8,929,472	-	457,528	5%
Debt Impairment	5,769,000	24,369,000	29,958,000.00	3,171,525	-	24,786,475	83%
Depreciation & asset impairment	41,702,000	-	4,702,000	63,156,799	-	26,156,799	-71%
Finance charges	1,499,000	-	1,499,000.00	2,736,207	-	1,237,207	-83%
Bulk purchases	65,845,000	12,000,000	97,845,000.00	147,947,385	-	50,102,385	-51%
Other materials	6,612,000	9,840,000	16,472,000.00	72,321,461	-	35,849,461	-339%
Other expenditure	145,269,000	7,301,000	152,570,000.00	186,058,668	-	33,588,668	-22%
Total expenditure	433,024,000	48,800,000	508,862,000.00	633,249,707	-	348,808,707	-30%
Surplus/(Deficit)	14,000	-	34,451,330	45,664,520	-	183,630,210	-316%

The municipality is still expending more resulting problems. The budgetary strategy included appointment of a dedicated Revenue Manager, which did not materialise.

Included is donation income and are recognised under the revenue from non-exchange transactions.

Was budgeted under other income - revenue from exchange transactions

Approved budget was based on the previous year write off and the Council had made provisions that where debts do come forward there should be a liability. This provision was valid until 31 August 2018 at per the budget approval resolution.

more projects were capitalised during the financial year which amongst others included Hibiscus Mandirasi Water treatment plant. Impairment of 837,546,698 was also provided for on PPE

Approved budget was based on the DBSA Loan where a prior approval, the council approved the 5% payment plan with Barratt Development. The additional impairment was not considered further during the adjustment budget.

The expenditure could not be controlled to budget since the expenditure was mainly resulted due to unforeseen circumstances like more plants had to shut down during the year to conduct comprehensive clean-up, which has been driving chemical usage due to longer time taken to make water free from chemicals is not useable.

the expenditure is more driven by repairs to water and waste water treatment plant. This type of expenditure is not practical to project since we still without the approved infrastructure maintenance plans. The budget was based on previous a dried outcome.

Main drivers were Aging Pipes, new security to water reservoirs and treatment plants. The cost is uncontrollable especially the aging fleet. The cost associated with VIP infiltration was budgeted under this category where after completion was handed over to the community and as such transferred out to donor. Also legal fees due to investigation of illegal expenditure.

The municipality is still experiencing meter reading problems. The budgetary strategy included a provision of a dedicated Revenue Manager, which did not materialise.

Included is donation income and are recognised under the revenue from non-exchange transactions.

Was budget under other income - revenue from exchange transactions

Approved budget was based on the previous year write off and the Council had made provisions that where debits do come forward there should be a liability. That provision was valid until 31 August 2016 as per the budget approval resolution.

more projects were capitalised during the financial year which amongst others included Hibiscus Mandisazi water treatment plant. Implementation of R37,546,488 was also provided for on PPE.

Approved budget was based on the DBSA loan where as after approval, the council approved the 5% payment plan with Barzani Development. This additional interest was not considered further during the adjustment budget.

The expenditure could not be controlled to budget since the expenditure was mainly escalated due to unforeseen circumstances like more plants had to shut down during the year to conduct comprehensive clean-up, which has been driving chemical usage due to longer time taken to make water free from chemicals and be usable.

The expenditure is more driven by repairs to water and waste water treatment plants. This type of expenditure is not practical to project since we still without the approved infrastructure maintenance plans. The budget was based on previous audited outcomes.

Main drivers were Aging Fleet, new security to water reservoirs and treatment plants. The cost is uncontrollable especially the aging fleet. The cost associated with VIP sanitation was budgeted under the other where after completion was handed over to the community and as such transferred out to opex. Also legal fees due to investigation of irregular expenditure.